

**DEVELOPMENT and
CRISIS in BRAZIL,
1930-1983**

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**The Post-1966 Expansion
and the New Model**

Starting in 1967, the Brazilian economy entered a new expansion, repeating and trying to outdo the expansive performance it had showed in the second half of the 1950s. The economic crisis had been overcome, whereas the political crisis marked by the authoritarianism of the military government continued to worsen.

The economic expansion that began in 1967 coincided with General Costa e Silva's rise to power. The reforms made during the previous crisis established the bases for this recuperation. Among these, the reform of the banking system, the reform of the capital market, tax reforms, and the institution of price indexation were fundamental. All of these reforms had been more or less defined before 1964, but had not been implemented for lack of political power. Roberto Campos and Octávio Gouveia de Bulhões implemented them with notable intelligence between 1964 and 1966, while at the same time adopting a short-term monetarist economic policy based on the restriction of aggregate demand and on the wage squeeze, which are both analyzed in Chapter 6.

However, as this chapter will show, the basic reason for this new expansion is the middle class's increased capacity to purchase durable consumer goods, especially automobiles. This was possible because of the concentration of income, not only within the upper bourgeoisie, as in the previous expansion cycle, but also from the middle class on up. It is also a function of the large-scale development of direct consumer credit, which was made possible by the institution of price indexation. The 1967 policy of minidevaluations in the exchange rate stimulated exportation and served as another important factor in the economy's recuperation. Finally, there was also a shift in short-term economic policy, and inflation was no longer blamed on demand. Rather, an emphasis on its cost component resulted in an economic policy geared

to the situation at the time, based on the expansion of demand and administrative price control.

The 1967–1971 Period

The Costa e Silva government, which began in 1967, maintained many of the negative aspects of the previous Castello Branco regime that had aggravated the crisis. Yet at the same time, it signaled a series of political changes that clearly set it apart from the previous government.

Political Changes

This epoch is divided into two different periods: the two years before Institutional Act Number 5, and the period after this act was made law. In the course of this first period, there was a breakdown in the unity and ideological firmness of the first moments of the military government. When the military first took power, they assumed a typically idealist attitude, imagining that the nation could be rapidly transformed. However, once in contact with the reality of the situation, they slowly perceived that this reality was not as adaptable as they had expected. They soon understood that Brazilian society has a structure, character, and rhythm all its own that cannot be changed overnight through various superficial reforms, the repealing of political rights, and the suspension of political freedoms. As a result, two of the pillars of the idealist military-revolutionary ideology—moralism, expressed as the fight against corruption, and anticommunism, as the struggle against subversion—lost much of their strength. This trend was emphasized even more when it became clear that the government leaders' fight against subversion and, especially, corruption was not quite what it seemed. The suspension of certain political leaders' civil rights makes it very clear that under the pretense of the fight against subversion or corruption, the government adopted measures ensuring that it would remain in power.

So the military became disillusioned, losing their enthusiasm for the revolution and also their unity around it. This ideological dilution and vacillation resulted in a relative diminution of their power, to the extent that they became divided, discouraged, and disorganized. In this way, though still occupying a typically subordinate position in the first months of the Costa e Silva government, civil groups gradually increased in power and influence. Their relative regaining of power is apparent in the attention that Costa e Silva paid to public opinion, an element completely disregarded in the previous government.

A superficial analysis of the personalities of the two presidents also demonstrates the evolution of the Revolution of 1964. Whereas President Castello Branco was a cold, deliberate aristocratic man characterized

by his lack of respect for the people, President Costa e Silva showed himself to be a passionate, emotional man, actively involved in life. It is obvious that the two different personalities imply very different styles of government. Yet more important was the education and training of these men. Whereas General Castello Branco was one of the intellectual leaders of the *Escola Superior de Guerra*, General Costa e Silva was a typical "barracks military man," only superficially influenced by the abstract and alienated models of the *Escola*.

Finally, as the Castello Branco government came to an end, the institutional-judicial panorama was modified. The institutional acts with their discretionary powers were replaced by a new constitution, new electoral laws, laws concerning political parties, and the national security law. These measures were hardly examples of democracy in their origins and context, and represented a serious backward step in the long-term political situation. However, in comparison to the Castello Branco government's dictatorial regime, they represented a short-term weakening of the Revolution of 1964.

It was probably as a reaction against this weakening of military power that Institutional Act 5 was enacted in December 1968. The government again assumed full power; political rights were suspended; the president received dictatorial powers that enabled him to enact laws, put people in prison, cancel the mandates of representatives, establish censorship of the press, and exclude professors from universities. The country's redemocratization was paralyzed. To some extent this was a response to the timid increase in civil power, the reorganization of the left, and the student revolt that took place in Brazil as well as in many other societies during this period. But more than anything else, it was an attempt by the leading military group to retain power and unite its forces to carry out the tasks that were still unfinished.

Here appears the great problem of the Revolution of 1964, revived again by Act 5. These tasks had not yet been defined. The Revolution of 1964 adopted as its starting point an essentially negative ideology: the fight against subversion and corruption. It also theoretically established positive goals: national security and economic development. However, the first of these ended up being redefined in negative terms, in terms of the fight against subversion. Another positive ideological element, the affirmation of a nationalist ideology, never came to be fully defined. It made much more progress in the Costa e Silva government, that of Castello Branco having been clearly colonialist. Economic development was defined only in the most general terms. While one could not justly say, as of the Castello Branco government, that it subordinated economic development to a policy designed to fight inflation, the Costa e Silva government was never able to define objectives that could unite

the nation's efforts. Despite the undeniable successes of its economic policy, the country still lacked a true national project that would affect broad sectors of the population.

At a certain point it seemed that this project would eventually be defined in nationalist and developmentalist terms, yet this possibility never materialized. When Act 5 was enacted, the country began a new chapter in the evolution of its political crisis without a national project promising optimistic perspectives for the future. The democratic dialogue that had been interrupted in 1964, but was being encouraged little by little, ended abruptly in 1968. As a result, another wave of radicalization reverberated, with groups of the extreme right and, especially, the extreme left operating illegally, once institutionalized channels were closed to them. Once again the features of the Brazilian crisis stood out in sharp relief.

Changes in Economic Policy

There were also significant changes in economic policy. The government's preliminary plan made a diagnosis of the Brazilian economy, with an implicit criticism of the Castello Branco government. The document makes the following summary:

I. Weakening of the Private Sector, a Result of:

- (1) more serious problems with monetary liquidity;
- (2) decreased demand in many sectors.

The reduction of monetary liquidity made it difficult to maintain production at full capacity, which in turn was a result of:

- (a) the rapid expansion of certain costs, especially financial ones (interest), public service rates, the tax burden, and social responsibilities;
- (b) the quantitative control of credit;
- (c) the increase in average production costs, linked to the falling demand in various sectors;
- (d) the massive sale of very attractive public bonds in the capital market.

The decrease in demand in a great number of sectors was provoked by:

- (a) the reduction in average real wages;
- (b) the decrease in disposable income, as a result of increased taxes (without a corresponding increase in public spending);
- (c) the autonomous increase in the prices of certain services important to the make-up of wage workers' expenses;
- (d) the drop in agricultural production in 1966;
- (e) the reduction in the level of private investments.

Sectors were affected in varying degrees by the insufficiency of demand or circulating capital: Those sectors most dependent on governmental demand present relatively better conditions in terms of sales and liquidity; those sectors more dependent on private demand, mainly that of wage workers, face serious problems in the present situation, making the difficult long-term perspective even worse.

II. Excessive Pressure Exerted by the Public Sector, in Various Forms.

The previous government's efforts to correct distortions in the economy and prepare the public sector for large investment programs seem to have been excessive for the economy as a whole. While it is true that the government's participation in terms of budget expenditures represented a smaller percentage of the national product, drastic increases in prices and the rates of public enterprises and the creation of new contributions (such as the Guarantee Fund for Time of Service) transferred a volume of resources from the private to the public sector in a relatively short time period, excessively reducing consumers' disposable income and enterprises' liquidity.¹

This gloomy picture, which was aggravated by the previous government's economic policy, resulted in the formation of a strategy to fight inflation. It was an intelligent plan created by a new group of technical experts who were responsible for the control of the economy.

Basically they defined the problem as cost-pushed inflation, rather than as demand-pulled inflation, which was how it had been defined under the Castello Branco government. The government plan affirms that this analysis explains the most recent features of the inflationary process in Brazil, which has shifted from a stage characterized by expanding demand with a high utilization of productive capacity to a stage characterized by expanding costs with marked levels of idle capacity. Despite the contraction of demand, inflation continued in this last stage, because of the autonomous increase of certain costs, increased interest rates, the increase in average costs because of a drop in sales, and inflationary expectations.² Mr. Delfim Netto, treasury minister, and apparently the inspiration behind this reformulation, had previously stated:

The current Brazilian inflation cannot be understood in terms of theoretical schemes of pure demand-pulled inflation or pure cost-pushed inflation. Experience has shown that these two tensions alternate in predominance over the economy. In fact, the autonomous pressure of costs has always been present in the inflationary process yet was often obscured by the importance of the effects resulting from demand. These tensions are increased by the very nature of the fight against inflation.³

The basic thrust of the diagnosis cannot be denied, yet the analysis could have been more profound. The government's political involvements must have hindered its perspective. For example, the government made a point of stating that its changes in strategy in the fight against inflation were a result of the present economic situation, and did not imply a criticism of the previous government's policy. While it was clear that the economic situation had undergone changes, these changes were fully apparent when General Castello Branco and his Planning Ministry took office. The economy had already functioned with idle capacity since the beginning of the Brazilian crisis. Again, among the costs that cost-pushed inflation implies, the most important factor was profit, that is, the "cost" of each enterprise's capital. This cost was not taken into account in the official analysis.

At any rate, the Costa e Silva government has the distinction of being the first officially to diagnose inflation in Brazil as cost-pushed inflation, and to take measures coherent with this analysis. The majority of these measures were designed to stimulate demand, rather than limit it, as in the previous government.

Delfim Netto's economic policy showed good results. In defining inflation as caused primarily by costs, and only secondarily by demand, the government did not hesitate to take measures (though often limited ones) to stimulate demand. In this way, wage policies were reformulated in an attempt to make up for the losses wage workers suffered from the inadequate application of the formula of wage indexation. Credit guidelines became more flexible, and government investments continued in substantial amounts. Once demand was stimulated, enterprises increased their production and the employment level was again stabilized. Thus the economy entered a cumulative process of prosperity in which increased demand stimulated production, which, in turn, stimulated demand. Corporate profits rose so that enterprises were no longer pressed to raise prices in order to cover their costs.

In accordance with its definition of the causes of inflation, the government established strong administrative controls on industrial prices. If inflation resulted from costs, this was a sign that prices were being set monopolistically. This being the case, it made no sense to try to fight inflation by severe restrictions on demand. Demand should be liberated while at the same time a strict control over industrial costs and prices was established. Modern auditing techniques should be adopted, rather than the old system of price controls, which could easily be evaded. In this way cost variation could be verified so that the authorities could decide whether to grant price hikes or not. This policy was implemented through the creation of the Interministerial Price Council (CIP), which controlled costs and prices in the 350 largest

Brazilian enterprises, precisely the oligopolistic sector of the economy. The government's deficit was also held within strict limits and credit was controlled, so that at the same time as we entered a period of relative prosperity, inflation was reduced to almost half of that verified in 1965 and 1966. In 1967 and 1968 it floated around the 25 percent mark, and it was even further reduced in 1969.

It should be pointed out that the reduction of the government's deficit and of its issuing of currency was in part made possible by the financial reforms of the Castello Branco government. Castello Branco's mandate was strongly antidevelopmentalist. However, even though its anti-inflation strategy was both mistaken and exaggerated (because it was unable to differentiate cost-pushed inflation from demand-pulled inflation), and worsened the economic crisis, standing in the way of development, this regime facilitated the Costa e Silva government's control over the budgetary deficit. But the most important measures for holding the deficit in check originated from the Costa e Silva administration. On one hand, taxes were increased, and on the other, the new prosperity made it possible to collect more taxes, so that the deficit could be reduced. It should be pointed out that the government's deficit is a consequence of inflation, rather than a cause. To the extent that the government was able to reduce the inflationary rate (of costs) by stimulating demand and controlling prices, it also became easier to control the budgetary deficit and the issuing of new currency, so that the inflationary spiral was prevented from gaining force.

One other positive aspect of the economic situation during the Costa e Silva government was the increase in exports. The export picture got better in 1967, setting a record of \$1,890 million in 1968. By all indications, it appeared that exports would reach the two million dollar mark in 1969. Aside from the favorable international economic situation, another positive influence upon exports (and especially manufactured exports) was the finance minister's policy of a mobile exchange rate. He established minidevaluations of the exchange rate that not only limited speculation, but also gave better guarantees to exporters, who would no longer run the risk of seeing their export costs (in cruzeiros) rising above their export prices.

The Economic Recuperation

The national income's growth rate, which had maintained extremely high indexes until 1961, began to fall starting in 1962. As Table 7.1 shows, the 1963–1965 period was one of serious economic crisis. Per capita income showed negative growth rates during these three years. In general, the Brazilian economy showed a quite unfavorable performance from 1962 to 1967. However, in 1968 the nation began a decided

TABLE 7.1
Growth Rate of the GNP

1960	9.7%
1961	10.3%
1962	5.3%
1963	1.5%
1964	2.9%
1965	2.7%
1966	5.1%
1967	4.8%
1968	8.4%
1969	9.0%
1970	9.5%
1971	11.3%

Source: Data gathered and revised by the Fundação Getúlio Vargas. See Conjuntura Econômica, Jan. 1970 and Jan. 1971. The data for 1971 is an estimate from the Treasury Ministry, made in December of this same year.

economic recuperation. In this year, 1969, and 1970, revenue increased 8.4 percent, 9 percent, and 9.5 percent respectively.

Despite the recession in the United States, Brazil's economic activity was strong in 1971. Investment remained high; exports were estimated at three million dollars; the exportation of manufactured goods showed a marked improvement; the government's budget deficit was under control; and prices increased at a slower pace. The growth rate was estimated at 11.3 percent.

The Weak Democratic Tradition

Though the crisis had been overcome in the economy, one could not say the same of the political situation. At the end of 1969, the nation was shaken by the death of President Costa e Silva. His successor was General Garrastazu Médici, chosen by a military council. The country continued under an authoritarian regime. Facing this dictatorship, the most radical of the left groups, disoriented and lacking perspective, responded with terrorism. The police often responded with violence and torture. The highest echelons of government attempted to diminish this phenomenon, but were unable to overcome the resistance of the

police. Despite successive defeats that revealed its weakness and lack of mass support, terrorism continued to be active, though it gradually became debilitated. On the other hand, the youth, intellectuals, and political leaders continued in silence. No possibilities of democratic dialogue existed. The dictatorial military regime, which had not yet been clearly defined, finally showed its true colors in 1968. We lived under the effects of Act 5.

Nevertheless, as we can see from the government party's victory in the 1970 elections, the government gradually managed to build a favorable image in the eyes of the masses. Brazil's victory in the 1970 international soccer championship helped that process along. But there are two other much more important factors: the Brazilian people's weak education in democracy, and the government's attempt to formulate a national project.

The Brazilian population's lack of experience in democracy makes it easy prey to strong governments. This phenomenon occurs not only among the lowest classes. These, the illiterate, miserable, and marginalized, are not even taken into account in the political process. The industrial working class and the lower urban middle class show a similar lack of democratic beliefs. This problem is related to the artificial origins of Brazilian political liberalism. The liberal tradition in Brazil never involved the majority of the population, as in the case of the United States or Europe. Liberalism has always been an imported ideology.

Until 1930, the nation was dominated by an agrarian-commercial oligarchy. Its economic and political ideology was liberalism, though in fact this ideology never had political consequences. However, it was adopted in the sphere of economics as a way to maintain the colonial *status quo* in Brazil. Economic liberalism, *laissez-faire*, prevented the government from adopting interventionist and protectionist policies and hindered any project for the nation's industrialization. In this way, economic liberalism became a powerful arm at the service of the agrarian-commercial oligarchy to keep Brazil as a model of economic dependency, an exporter of primary products the benefits of whose system were reserved for this oligarchy and for the imperialism of the industrialized countries.

Political liberalism was only a secondary aspect of this model. The political system was effectively oligarchical, based on the power of large *latifundiários* and the large-scale exportation of primary products and importation of manufactured goods. There was room for economic liberalism, but political liberalism did not fit in well. So it survived only artificially, idealized in the law schools that educated the sons of the middle and upper classes. It managed to hold sway to the extent that it was the dominant ideology in Europe, and because it was coherent with economic liberalism. Yet it was not representative of the nation's

interests nor its most profound convictions, nor even of its most significant sectors.

The economic, political, and social changes that began in 1930—the period I am calling the first stage of Brazilian revolution—did little to change this perspective. The new political approach that emerged from this revolution denounced the antinationalist character of economic liberalism and tried to exclude its defenders from the country's economic and political process. In this sense, this movement shares common characteristics with the Revolution of 1964. However, while both processes negated economic liberalism, they also negated political liberalism. Thus it is not surprising that Brazil has little experience in democracy. In the period between 1930 and 1964, both political and economic liberalism were defended by the social and political groups that had dominated the nation until 1930. Thus political liberalism received its strongest defense from the most reactionary elements, who nevertheless did not hesitate to forget that ideology when it conflicted with their interests, and to appeal to the armed forces.

Of course there were also defenders of political liberalism among the progressive groups that emerged in this period. In fact this emergence created the elements for a period of democratic government between 1945 and 1964. But these groups—the working class, industrial entrepreneurs, students, intellectuals, the new middle class—were much more concerned with defining a nationalist ideology geared toward industrialization and economic intervention than with the defense of democratic freedoms. Until 1964, the intellectuals of the Brazilian left had little concern with formulating and defending a liberal political ideology in which political freedoms were an essential value. In fact, these freedoms had few defenders until 1968. Thus one can understand the lack of a democratic spirit in the Brazilian population and the reasons why a strong government could receive popular support.

Yet besides this negative factor, there is also a positive element that explains the popularity of the military government. This was the attempt to formulate a national project for the country's development. After 1964, the Castello Branco government adopted two watchwords, both negative: the fight against subversion and the fight against corruption. This kind of conservative and moralist appeal elicited little enthusiasm among the popular classes. After the transitional phase represented by the Costa e Silva government, the Médici government shifted the emphasis of its discourse from this negative approach to a more positive one. Though still incipient and imprecise, nationalism began to make its voice heard in the political-economic arena. This tendency received support from the military, whose traditional nationalism had received little stimulus from the Castello Branco–Roberto Campos government.

This new nationalism was mixed with a strong current of patriotism. It can be noted in the attention given to the flag, the national anthem, and moral and civic programs. These elements often became indistinguishable from the government's new development plan, which placed the building of an economically great and powerful nation above all other goals. This emphasis was expressed in its foreign policy with respect to coffee and instant coffee, marine freights, and the fishing industry. The Transamazônica Highway is another clear expression. It was built to ensure the nation's sovereignty over that area, as well as to mobilize the Brazilian people. The construction of Brasília and the Belém-Brasília Highway had the same goals.

In this way, the first outlines of a nationalist ideology and a national project began to be traced. The Brazilian military again emphasized nationalist ideals. But this nationalism was not yet clearly defined; it lacked a clear position on foreign capital and the nation's economic, political, and cultural dependence on the United States and Western Europe. Under the influence of technobureaucratic leaders, the government adopted a basically pragmatic attitude during this period, making it difficult to formulate an effective nationalist ideology. In fact, the strategy of the ruling technocratic group was clearly based on an alliance between the government and national and international capital. However, the government did not play a subordinate role in this alliance. Instead, it was an active element that sought to increase its rate of economic growth through the alliance.

Concentration of Income and the Economy's Recuperation

As Chapter 5 has shown, the reasons behind Brazil's economic crisis of 1962–1967 are clearly related to the way income was distributed.⁴ Starting in the 1950s, there was a strong tendency for income to be concentrated in the hands of the capitalist class. This tendency was caused by the increasingly capital-intensive nature of the investments made, and resulted in a permanent state of underconsumption. It was difficult to make up for the weakness of aggregate demand by private investments because the latter, in the final analysis, are related to the population's capacity for consumption. In a closed economy (as ours was from the point of view of industrial production) every investment, either short or long term, resulted in an increased supply of consumer goods that would have to find a market. The exhaustion of the possibilities of import substitution took place at the same time as the concentration of income, and severely limited the growth of the consumer goods market necessary to keep aggregate demand high.

TABLE 7.2
Profile of the Global Demand in Brazil

Groups	% of the population	Population (1,000)	Per Capita income in \$s	Total income (\$1,000)	% of the income
1st	50%	45,000	130	5,850	18.6
2nd	40%	36,000	350	12,600	40.1
3rd	9%	8,100	880	7,128	22.7
4th	1%	900	6,500	5,850	18.6
	100%	90,000	350	31,428	100.0

Source: Celso Furtado, *Um Projeto para o Brasil* (Rio de Janeiro: Editora Saga), 1968, p. 38. Based on data from CEPAL, *Estudios sobre la Distribución del Ingreso em America Latina* (Santiago, 1967).

Celso Furtado described this phenomenon in *Subdesenvolvimento e Estagnação na América Latina*,⁵ in which he developed the bases for the "Latin American stagnation thesis." I adopted a part of this thesis in analyzing the structural vicious circle of Brazilian underdevelopment. Later, as a sequel to his previous diagnosis, Celso Furtado made a proposal aimed at overcoming the economic crisis. *Um Projeto para o Brasil*⁶ is based on a plan for greater state participation in the economy and in the distribution of income.

Celso Furtado provides information, based on data from the CEPAL, on the distribution of income, that is, the profile of global demand, in Brazil. We see a population of 90 million inhabitants, with a per capita income of \$350. Table 7.2 demonstrates that the concentration of income is an outstanding characteristic of the Brazilian economy. Fifty percent of the population live practically at the subsistence level, with a per capita income of \$130. These same 50 percent have a share in the national revenue equal to that of the richest 1 percent of the population (this data being only approximate, of course).

On the basis of this data, which confirms that the then recent income concentration process was responsible for the economic crisis, Celso Furtado proposed an economic policy that would redistribute the income. This policy would be implemented by increasing the tax burden on the richest 10 percent of the population. This would imply a reduction of 25 percent in the per capita income of the fourth group, whose income would fall from \$6,500 to \$4,875, and a 10 percent reduction in that of the third group, whose per capita income would be reduced to \$792. On the other hand, Celso Furtado estimates that the fourth group has an 80 percent marginal propensity to consume, and the third group a 100 percent propensity. Therefore, from the \$1,625 dollars per capita taken from the fourth group in taxes, the corresponding liquid savings would be 80 percent, that is, \$1,300, since the remaining \$325 would no longer be saved by the fourth group. In other words, the government

would save \$1,625, but the fourth group would no longer save this \$325. As to the third group, the 10 percent tax would be entirely transformed into government savings, that is, there would be a savings of \$88 per capita. Given the population of the two groups (900,000 for the fourth group and 8,100,000 for the third), we would have an increased savings of \$1,882,800 ($\$1,300 \times 900,000$ plus $\$88 \times 8,100,000$), corresponding to approximately 6 percent of the national income.

These savings, which would result from increased taxes, would be invested in large, highly labor-intensive projects. In this way employment would increase, as well as wages in the first and second groups. With their increased share in the national revenue, these groups would increase their demand for simple consumer goods, which are generally produced by labor-intensive methods. The consequent further increase in employment would put an end to open and hidden unemployment.

Celso Furtado's proposal is very attractive. It is based on an objective analysis of the Brazilian economic crisis and presents socially favorable solutions favoring a redistribution of income. It is an economically feasible project, though a quite radical one. It would not have to be implemented abruptly. It would be necessary to consider the reactions of private investors, who would have to reorient their investments. Nevertheless, this proposal has one fundamental limitation. It is politically very difficult to implement because it requires an extremely strong government independent of economic interest groups. Nor does it consider the negative effects that this redistribution would have on the expansion of the most technologically dynamic industries, which cater mainly to the third and fourth groups. While it is clear that these unfavorable effects could be bypassed, it would not be an easy task. Swimming against the tide is always more difficult. The most technologically sophisticated industries set the pace of Brazilian economic development. These are also the industries where the most active political-economic interests are concentrated.

It was probably because of these potential problems that Antônio Barros de Castro began to study another alternative for the Brazilian economy.⁷ He views the profile of global demand in much the same way as Celso Furtado. Castro, also a CEPAL economist, observed that the first group was completely marginalized from the Brazilian market, and the second group participated only minimally. On the other hand, the history of Brazil's industrialization is marked by the production of more and more technologically sophisticated goods, intended for an increasingly small minority of the population. In the process of import substitution, it was initially simple general consumer goods that were substituted, such as textiles and food products. However, as this process evolved, those industries that remained dynamic, with greater growth

potential, began to produce more expensive and technologically sophisticated goods intended exclusively for the high-income classes, such as automobiles or high fidelity equipment.

Antônio de Castro posited that if these premises are correct, in order for Brazil to overcome the crisis, the nation would have to concentrate income rather than redistribute it. This concentration, however, would not be limited only to the fourth group, the capitalist class. We have already seen that this kind of concentration was one of the basic causes of the crisis. Rather, the third group, the middle class, should also be included, and also the top layers of the second group, which could be making progress toward entering the third group. The first group and the majority of the second would be kept at their stagnated income. Increases in income would be directed toward those of the intermediate- and high-income groups. Though Antônio de Castro says he is not fond of this solution on the social level, he sees it as potentially highly successful from the strictly economic point of view. Benefiting these groups, he argues, would maintain a high level of demand for sophisticated goods, and consequently sustain the nation's dynamic industries.

From all indications, it appears as if this was the path chosen for the Brazilian economy after 1964, rather than that proposed by Celso Furtado. This policy can be pointed out as one of the basic factors in the nation's economic recuperation after 1967. This was not a solution formulated by the government economists and consequently was not the result of a deliberate and conscious economic policy. There are no definitive studies on this subject. Yet there is a firm basis for the hypothesis that Brazil's recovery and further development was built upon the concentration of income among the middle and upper classes.

Two kinds of evidence support this thesis. First, the post-1964 Brazilian government of technocrats and military men is a middle-class government. Consequently, whether consciously or unconsciously, it formulated an economic program that would benefit its class. The program of the *Banco Nacional de Habitação* is one of the most obvious examples. The *Plano Nacional de Habitação* was formally established to build popular housing. In practice, however, it became an excellent means for constructing houses for the middle class. Another important example is the government's wage policy, which rigidly controlled working class wages while liberating middle-class salaries. Furthermore, as industries became more automated and capital-intensive, the natural tendency of the market was to favor the intermediate groups, to the detriment of the lower classes. Directly or indirectly, this type of industry demands workers with an intermediate level of qualifications in much greater proportion than labor-intensive industry.

But there is more than indirect data and inferences to indicate that a concentration of income took place that benefited middle- and high-income groups. A 1969 *Banco do Nordeste* study shows how this process occurred in various capitals of the Brazilian northeast. According to this research:

- In Recife, the poorest 40 percent of the population, who had received 16.5 percent of the total income in 1960, received only 11.5 percent in 1967;
- In Salvador, the poorest 20 percent, who had received 5.3 percent of the total income in 1960, received 3.8 percent in 1966;
- In Fortaleza, the poorest 20 percent of the population, who had received 8 percent of the income in 1962, received only 5.3 percent in 1965.

This same phenomenon was repeated in Natal, João Pessoa, Maceió, Campina Grande, and São Luiz. Table 7.3 shows the complete results of this study.

The relation between the minimum wage and the average wage is another indication of this concentration process. Whereas the minimum wage in real terms fell each year, the average wage was rising. The real minimum wage showed a steady decline throughout the decade. Using May 1969 prices, the real minimum wage, which was 331.50 cruzeiros per month in 1959, systematically fell each year until it reached 187.20 in 1970. Table 7.4 shows this constant drop, which was especially pronounced between 1964 and 1965, showing a 20 percent decrease in that year alone. On the other hand, the real average wage rose during the 1965–1970 period in the state of São Paulo. Using February 1969 prices, the real average wage, which was 405.66 cruzeiros in 1965, increased to 534.05 in 1970, as Table 7.5 shows.

The 1970 census definitively confirms the existence of income concentration. Whereas in 1960 the richest 5 percent of the population received 37 percent of the national income, in 1970 this figure grew to 45 percent.

The obvious conclusion is very simple and confirms our original hypothesis: A concentration of income was taking place, starting from the middle class and continuing on up. The minimum wage is an indication (though not always the most accurate one) of the remuneration received by the poorest sectors of the population. According to the Labor Ministry's data, in São Paulo, the richest city in Brazil, 30 percent of the working population receives the minimum wage. The average wage is influenced on one hand by the minimum wage, and on the

TABLE 7.3
Distribution of Income by Fifths of the Population
(percentage)

		1 st (lowest income)	2 nd	3 rd	4 th	5 th (highest income)	Total
Recife	Oct. 60		16.5	14.5	21.9	47.1	100.0
	Mar. 67	3.2	8.3	10.9	21.2	56.4	100.0
Salvador	62	5.6	8.5	13.6	21.8	50.5	100.0
	Aug. 66	3.8	7.7	13.9	23.6	51.0	100.0
Fortaleza	62	8.0	11.2	16.0	15.0	49.8	100.0
	July 65	5.3	8.8	14.4	22.5	49.0	100.0
Natal	Nov. 64	5.2	8.6	15.0	22.2	49.0	100.0
	July 66	4.2	10.9	13.2	20.9	50.8	100.0
Maceió	Apr. 64		15.4	12.0	20.1	52.5	100.0
	Mar. 68	3.0	7.3	12.6	21.3	54.9	100.0
J. Pessoa	Nov. 64	5.6	8.1	14.8	20.7	50.8	100.0
	July 67	2.8	6.5	12.9	23.7	54.1	100.0
S. Luiz	Sept. 63	5.6	11.7	15.9	22.9	43.9	100.0
	Feb. 67	4.6	8.5	13.2	21.4	52.3	100.0
C. Grande	May 62		16.2	13.8	21.3	48.7	100.0
	July 67	2.7	5.7	11.2	20.9	59.5	100.0

Source: Banco do Nordeste do Brasil, *Distribuição e Níveis da Renda Familiar no Nordeste Urbano* (Fortaleza, 1969), p. 22. Research carried out by the BNB/ETENE-SUDENE.

TABLE 7.4
Real Minimum Wage

Month and Year	Nominal Minimum Wage in Cr.\$	Cost of Living Index 1965/67: 100	Real Minimum
			Wages in Cr.\$, May 1969 prices
1/1959	5.90	4.04	331.50
10/1960	9.44	7.08	302.65
10/1961	13.216	10.1	297.02
01/1963	21.00	16.3	292.55
02/1964	42.00	34.1	279.55
03/1965	66.00	64.9	230.80
03/1966	84.00	90.1	211.60
03/1967	105.00	122.0	195.36
03/1968	129.60	151.0	194.83
05/1969	156.00	187.0	189.37
05/1970	187.20	227.0	187.20

TABLE 7.5
Average Wage in the State of São Paulo

Month and Year	Nominal Average Wage in Cr.\$	Deflator	Real Average Wage in Cr.\$ Feb. 1969 prices
3/1965	119.7	64.9	405.66
3/1967	219.55	122.0	466.00
3/1968	267.82	147.0	400.66
5/1969	400.48	187.0	470.96
2/1970	534.05	220.0	534.05

other by the higher wages that are paid to specialized workers, trade masters, technical operators, office personnel, engineers, and all the bureaucratic and technical employees typical of the middle class from its highest to its lowest sectors. So if the minimum wage falls and the average wage continues to increase, it is clear that this occurs as a result of a redistribution of income favoring those who receive higher wages.

To a certain extent, this phenomenon could be explained by the hypothesis that the minimum wage has become less and less important to the extent that industries pay their workers more than the minimum wage. However, while this is in fact the case in many enterprises, the minimum wage continues to be the base or point of reference in setting wages for unskilled and semiskilled workers. Thus, aside from being coherent with the analysis I am making, the hypothesis of the concentration of income among those receiving higher wages or salaries seems to be the most adequate to explain the inverse tendencies of the minimum and average salaries.

Development of Dynamic Industries

This concentration of income ensured a large market for the most dynamic, technologically up-to-date industries. For example, the automobile industry was one of the foundations for the recuperation of Brazilian economic development. Automobile production showed a 5.6 percent growth in 1969, producing 112,844 automobiles in 1968 and 183,367 in 1969.⁸ An increase in the first group's income has absolutely no effect on the automobile industry. Rather it is the income growth of the third group, and certain elements of the second group, that influences the market for these products.

There was another factor that sought to increase revenues, and also investment, without the constant pressure for a redistribution of income.

This was the government's policy giving incentives for the exportation of manufactured goods. This measure made concentration of income and development economically compatible by making investments possible without an increase in consumption. The final products were exported, rather than having to find a domestic market. The importation derived from this exportation process was focused on the purchase of prime materials and equipment intended to increase exportable production. And in this way the economy entered a cycle in which the capitalist system maintained its dynamism independently of income, redistribution, and an expansion of the internal market.

Thus the recuperation of the Brazilian economy resulted from these two phenomena related to the distribution of income. On one hand there is the phenomenon predicted by Antônio de Castro, the concentration of income in the hands of the middle class. On the other, there is the stimulation of the export economy, making development compatible with the concentration of income. Both phenomena could be considered negative from the social point of view. However, this book is not making a social critique, but rather an analysis of Brazilian economic development. Development is an historical phenomenon that should not include valorative connotations. Yet economic development is often erroneously defined as a process that benefits society as a whole through the redistribution of income. Unfortunately (if I may be permitted this valorative intervention), this definition is not a precise one. It is a product of idealist rather than historical reasoning. For example, the English Industrial Revolution was an historical process of great economic development. Yet it was also a period characterized by the concentration of income and the impoverishment of the peasants, which forced them to become industrial laborers. A century was necessary for this tendency to be reversed, so that the English working class would experience an effective rise in its standard of living.

This does not mean that here and now, in the twentieth century, two centuries after the Industrial Revolution, Brazilians should be repeating the same experience. I believe that no concentration of income took place in the 1930–1955 period. Yet all indications are that in the mid-1950s, Brazilian economic development came to be based on the process of concentrating income in the hands of the middle and upper classes. And this process was one of the main factors responsible for the recuperation of the Brazilian economy after its period of crisis.

Finally, one must admit that this model based on the concentration of income and the abandonment of the poorest Brazilians, the first group, in spite of its social injustice, is economically viable for a long period. As long as it is possible to increase the incomes of the third and fourth groups and transfer elements from the second to the third

group, the economy can maintain its dynamism, despite the misery of more than 50 percent of the population.

The New Political Model

In fact, it appeared that Brazil was setting up a new historical model of economic and political development.⁹ Throughout the nineteenth century and up until 1930, Brazil developed according to the primary-export model. It was a development model geared to the external market, a product of the enormous development of international commerce and the international division of labor that started in the middle of the nineteenth century. Beginning in 1930 with the crisis of the international capitalist system, a new development model appeared in Brazil: the import-substitution model.

Industrialization followed this development model in Brazil, with the economy oriented to the domestic market. The import coefficient, that is, the ratio of imports to the national income, abruptly decreased. It maintained a level of about 22 percent at the end of the 1920s and fell to about 7 percent at the beginning of the 1960s. Industrialization was realized by substituting domestic products for goods that had previously been imported, whereas exportation remained relatively stagnant.

The last chapter examined the crisis of the import-substitution model, making a detailed investigation of its causes. At first I thought that it was a permanent structural crisis. However, it now appears obvious that the crisis was only transitional. The point at which the import-substitution model reached its maximum distortions and exhausted its possibilities coincided with a series of short-term, nonstructural economic problems as well as a political revolution. All these factors set off an economic crisis that lasted from 1962 to 1967 and served as a transitional phase to a new model for economic and political development in Brazil.

I have already outlined the underlying dynamic of this new economic model, in identifying the structural reasons for the economy's recuperation as related to the concentration of income among the upper and middle classes. I shall now summarize its main characteristics.

Brazil had definitely moved beyond the import-substitution model. The new development model had entirely different economic characteristics. The import coefficient was no longer decreasing; in fact it tended to increase. Our exports were no longer stagnant, either quantitatively or qualitatively. On the contrary, our exports increased dramatically, starting in 1966, and rapidly diversified, with marked growth in the export of manufactured goods. While some imported products were still being replaced by domestic production, the dynamic factor in Brazilian industrial development was no longer based on setting up

new industrial sectors and consequently on the process of import substitution. It was now based on growth in the domestic market and the further development of already established industrial sectors.

The political model for Brazilian development in the 1930–1961 period was based on an alliance among the emerging national bourgeoisie, populist currents, and left sectors, centered around industrialism, nationalism, and moderate interventionism. It began to collapse at the end of the 1950s, and the Revolution of 1964 filled the political vacuum caused by the crisis of that political alliance. This revolution initially adopted a liberal project to the extent that it was realized with the participation of the traditional middle class and the oligarchical groups that had represented the opposition in the previous political model. The project announced by the Castello Branco government was quickly to reestablish representative democracy in the nation and establish a liberal capitalist system, reducing the government's participation in the economy. Yet this project was rapidly abandoned.

The political development model taking shape from 1964 until now in Brazil could be called a technobureaucratic-capitalist model. It is based on an alliance between the military and civil technobureaucracy¹⁰ on one hand and national and international capitalism on the other. In its turn, this alliance is based on an economic development model characterized by the modernization of the economy, the concentration of income among the middle and upper classes, and the marginalization of the lower class.

The political and economic models of technobureaucratic-capitalist development constitute an organic unity that demands an integrated analysis. We could also call this development model "state capitalism," yet this denomination seems to detract from the specificity of the phenomenon under study. What we have in Brazil is a development model based on technobureaucratic control of the government by the military, technical experts, and bureaucrats, and also based upon capitalist control of the production process by this same government as well as by national and, especially, international capitalist groups.

The military men who took power in 1964 are a technobureaucratic group *par excellence*. Originating from a modern bureaucratic organization, the armed forces, they have a strong technical background and administer considerable human and material resources. They always adopt efficiency as one of their principal criteria, a preference characteristic of the technobureaucracy. Once in power, they immediately called upon civil technobureaucrats to participate in the government. Especially since the beginning of the Costa e Silva government, these two groups originating from the new middle class have assumed full control of the

government and placed economic development and national security as their basic objectives.

Starting in 1964, national and international capitalism were invited to participate in the system. The 1964 revolution's early liberal economic tendencies explain this fact. The initial idea was actually to hand over power to the capitalist group, in accordance with the classic patterns of liberal capitalism. Nevertheless, the technobureaucratic group soon realized that it had sufficient strength and technical-organizational capacity to maintain control in its own name. It also saw that it could establish a developmentalist policy closely allied with national and international capitalism.

Thus the foundation was laid for the technobureaucratic-capitalist development model in Brazil. It is based on large technobureaucratic government and the large capitalist enterprise. The technobureaucratic government controls an immense part of the national economy; plans development; establishes fiscal, monetary, finance, wage, and housing policies; and intervenes directly in the economy through large public enterprises. The large capitalist enterprises and the large public enterprises are responsible for production. They utilize modern technology, and receive fiscal incentives and credit subsidies from the government. They have a large part of the national savings at their disposal because they obtain large profits and have access to the capital market.

The large technobureaucratic government and the large capitalist enterprise complement one another. Aside from its general control of the economy, big government also provides electrical energy, transportation, steel, oil, and communications. Large capitalist enterprises, mainly the international ones, control manufacturing industries, particularly automobiles, capital goods, durable consumer goods, electronics, and petrochemicals. It is in this latter sector, and also in mining and international finance, that the alliance between the government and international capitalism is most explicit. The financial agreements signed by Petrobrás, Vale do Rio Doce, and Banco do Brasil are clear examples of this phenomenon.

This alliance establishes the basis of a new kind of dependence: technical and political dependence. It is no longer a colonial dependence, opposed to industrialization, like the alliance of the agrarian-commercial oligarchy with international capitalism in the nineteenth century and the first part of the twentieth century. After international capitalism set up its own industries in Brazil in the 1950s, its opposition to Brazilian industrialization naturally disappeared. Yet a series of limitations were imposed upon our industrial development, especially when there was a conflict between the matrix and a Brazilian subsidiary or branch. There also continue to be groups (such as the U.S. instant coffee industry)

that, because they are denied the opportunity to set up production in Brazil, are opposed to our industrialization. However, as a rule, international capitalism is interested in Brazilian industrialization to the extent that this implies profits and accumulation.

A second characteristic that distinguishes this new alliance from the old is that the former does not place the Brazilian partner in a clearly subordinate position, as was the case in the agrarian-commercial oligarchical relationship with international capitalism. In the present alliance, national capitalism is still the subordinate element in relation to both international capitalism and the technobureaucratic government. This latter, however, is an equal partner. It participates in the alliances that serve its interests, where it makes concessions, but it does not necessarily occupy a subordinate position. The Brazilian government of today is sufficiently strong, and represents the interests of the new middle-class technobureaucracy with enough coherence and concordance, that it plays its political role in the balance of power in its own name.

The government is no longer a simple representative of capitalist economic power, as in the orthodox Marxist analysis of the question. The unprecedented geometric progression of technology in general, and of administrative techniques for the management of large enterprises, has transferred power to the government technobureaucracy. On the other hand, the extraordinary growth of the state apparatus and its direct control of an enormous and continuously increasing portion of the means of production makes the technobureaucratic system even more autonomous.

In this way, the large technobureaucratic government is today in a position to be a partner in and even, to a certain extent, to control the activities of international capitalism within Brazilian borders. Outside the limits of this alliance, it can also take nationalist measures, as occurred in the case of the instant coffee industry, the international shipping freight policy, the 200-mile limit on its territorial waters, the Transamazônica Highway, and the restrictions placed on international capitalism's control of banks.

Yet despite the fact that this alliance is made between two relatively equal partners, this model does not go beyond dependent development. It is a new kind of dependence that, instead of being colonial and opposed to industrialization, has developmentalist characteristics. Development is realized by integrating Brazil into the international capitalist system, in which it becomes an appendage with neither technological autonomy nor autonomy in its accumulation of capital. Because foreign enterprises have no interest in developing a national technology, there is naturally a strong technological dependence. On the other hand, because foreign enterprises reap high rates of profit, an increasing portion

of the national savings escapes our control, at the same time that a permanent process of denationalization of the economy takes place.

The New Economic Model

In terms of supply, that is, in terms of the organization of the productive system, the new model of Brazilian economic development is characterized by what Maria Conceição Tavares and José Serra have called the “progressive heterogeneity” of the Brazilian economy.¹¹ Since the exhaustion of the import-substitution model, we can divide the economy roughly into two sectors: the modern sector and the traditional sector. The modern sector is made up of large capitalist and public enterprises, in the industrial, financial, and commercial sectors. It is especially, though not exclusively, characterized by technologically dynamic industries that use highly capital-intensive imported technology. The traditional sector includes not only a large part of the agricultural sector and the crafts industry, but also small and medium-sized industry. This sector produces relatively simple goods, using a relatively basic technology. It also includes the small businesses and consumer services oriented toward the low-income classes.

The modern sector differs from the traditional mainly in employing more advanced technology. The consequent productivity differential, as well as its larger scale, allows it to appropriate considerable savings and consequently permits it to control a large part of the accumulation of capital, together with the government. In the areas where the modern and traditional sectors coexist, involved in the same kind of production, the productivity differential does not necessarily drive the traditional producer out of the market, but it does ensure a high rate of profit for the modern producer.

This modern sector, which has the advantage of more advanced technology in production techniques as well as in administration and organization, also receives a whole series of incentives from the government. In accordance with its policy of basing the nation’s development upon the growth of large industries, the government encourages and facilitates mergers, offers fiscal advantages, provides special credit, and develops the capital market. As a result, in the short term (and as I shall explain later, also in the long term), the economy becomes progressively more heterogeneous.

The other side of this model is the restructuring of demand examined earlier in this chapter. Aggregate demand may also be divided into two sectors, roughly, though not exactly, corresponding to the two productive sectors. They would be the upper and middle classes on one hand, containing about 30 percent of the Brazilian population, and the lower

class, representing the other 70 percent, on the other hand. The first sector consumes mainly luxury goods—automobiles, durable consumer goods, and services produced by the modern technologically dynamic sector. The concentration of income among the upper and middle classes favors an even greater development of large national and international corporations as well as public enterprises. In turn, these large enterprises, highly capital-intensive and technologically sophisticated, increase the demand for specialized and administrative personnel, rather than non-specialized workers. Middle-class employment increases at the same time as lower-class workers become increasingly marginalized. Thus this circle of development is completed, as development of the modern sector permits concentration of income among the upper and middle classes, and this concentration, in its turn, stimulates the modern sectors' growth. Both the traditional productive sector and the lower classes are excluded, marginalized from this process.

There is another aspect of demand that has not yet been analyzed. Besides the concentration of income among upper- and middle-class conspicuous consumers, there is another phenomenon that reinforces the model, making the concentration of income compatible with development. This factor is exportation, which has increased rapidly in Brazil in the last years. Not only is the country passing the definitive test outlined in Chapter 6, but it is also finding a way to avoid the necessity for internal consumption of the consumer goods it produces. They are exported in exchange for machinery and raw materials. Thus it is no longer necessary for consumers' acquisitive power to increase in proportion to increased production.

This development model was recently the object of a simulated econometric study made by professors Samuel A. Morley and Gordon W. Smith. They concluded that "the more regressive the distribution of income is, the greater the rate of industrial development, in large part due to the importance of durable consumer goods, especially automobiles and the industries that supply them—rubber, machinery, metals, and gasoline."¹² Nevertheless, they also verify that the negative effect of a more equalitarian distribution of income on the nation's growth rate would be small. A simulation they made with a more progressive distribution pattern shows a difference of only 8 percent from that with the most regressive or concentrated pattern.

Though it confirms the theory that concentration of income is positively associated with Brazil's recent economic development, this analysis also gives impetus to Celso Furtado's distributionist thesis. The former verifies that even without the plan for state intervention in the economy that Celso Furtado proposes, the rate of industrial growth would hardly be reduced by a fairer distribution of income.

Nevertheless it is clear that it is not Celso Furtado's model that is in effect, but rather the model that concentrates income among the upper and middle classes. Representatives of these classes, confronted with this model, commonly affirm that it is only for the short or intermediate term. The way the story goes, in the long term, income will necessarily be redistributed, the marginalized populations integrated within the system, and the traditional sector homogenized with the modern sector, as in Europe and the United States.

Unfortunately, this approach is not necessarily true. In simplified and abstract terms, if Brazil's population were 100,000,000, with 70 percent making up the lower class with a per capita income of \$214.30, and the other 30 percent making up the middle and upper classes, with a per capita average of \$1,000, we would have a general per capita income of \$450. To simplify further and identify the lower class with the traditional sector and the middle and upper classes with the modern sector, the traditional sector would have an income of \$15 billion and the modern sector, \$30 billion.

Now imagine that the population increases at the same rate in both sectors, and that income increases by 3 percent in the traditional sector (which would mean that the traditional sector would be kept marginalized, with a stagnant per capita income). It would be sufficient for the modern sector to grow by 9 percent for the economy as a whole to show a 9 percent annual rate of growth.

However, in order to grow by 9 percent, the modern sector does not necessarily have to resort to the market and labor power of the traditional sector. I have already described the effects on the market of the concentration of income among the middle and upper classes, that is, in the modern sector. In relation to labor power, the situation depends entirely upon the technology that is utilized. Imagine that we have an annual investment of \$9 billion, of which 90 percent will go into the modern sector. I shall also postulate that the supply of labor in the modern sector (which includes middle class specialized workers) increases 3 percent per year, and that this supply constitutes 50 percent of the sector's population (the half actively involved in production). Thus 450,000 young people from the modern sector enter the labor market every year. Given an annual investment of \$8.1 billion, if the marginal relation of capital to labor were \$18,000, the modern sector would not have to contend for labor power with the traditional sector. In other words, according to this model, if \$18,000 or more were needed to employ a new worker, it would not be necessary to transfer labor from the traditional to the modern sector, and the former would be permanently marginalized.

There are no available studies that measure this marginal capital-labor relation. It is important to remember that this relation includes not only direct employment created by the investment, but also indirect jobs in the service sectors. This is why, though it is apparent that the relation is quite low, we cannot make definitive conclusions in this respect.

Nevertheless we can make some general observations. Today investments in the modern sector are highly capital-intensive. They use much less labor power per unit of capital than the developed nations used in the corresponding phase of their economic growth. Therefore it is reasonable to suppose that the modern sector will not need labor from the traditional sector if the present tendency continues. The high intensity of investments being made is no longer a reason for underdevelopment and crisis, as I had previously believed, but now constitutes the cause of development with a consequent economic and social marginalization.

This technobureaucratic-capitalist development model, based on the concentration of income and the permanent marginalization of a large part of the population is therefore economically viable. However, I do not know to what extent it is politically viable. Clearly, it is not economically, much less politically necessary. The most one can say is that the alliance between the large technobureaucratic government and the large capitalist enterprise, and the process of income concentration, actively facilitate the development process today. Yet they also create profound social distortions and an economic and political dependence that sooner or later must be reevaluated. This is why it is not difficult to imagine that this development model will be reevaluated as on one hand, social pressures from the marginalized groups increase, and on the other, the government technobureaucracy begins to question the advantages of this alliance with national, and especially international, capitalism. There is no guarantee that this will happen, and in fact, the present tendencies point in the opposite direction. Yet there is no structural factor to impede this change in tendency.

Industrializing Technocracy, the Fourth Alternative

The preceding chapter examined three possible ideologies for Brazil—classical neoliberalism, technobureaucratic-military interventionist liberalism, and developmentalist liberalism. The first two ideologies are not suited to a national project for economic development. The third is not politically viable on the one hand because of the absence of organization, independence, and political consciousness among the industrial entrepreneurs, and on the other hand, because of the colonialism, conservatism, idealism (alienation from reality), and moralism of the

technocrats and military officers who assumed power in 1964. Yet these latter traits are not necessarily intrinsic to technobureaucrats and military officers. Rather, they are characteristics of the traditional middle class from which the Castello Branco government's military and civilian leaders were recruited. Leaders, however, may also be chosen from the new middle class, the product of Brazil's industrialization since 1930.

The new middle class is similar to the traditional one whose origins date back before the industrial revolution, in that it is conservative, cautious, and concerned with its own security. It differs from the traditional middle class to the extent that it is integrated into the productive process, and therefore has a more realistic perspective. The new middle class depends fundamentally upon economic development. It is a product of this development, its power and prestige increasing in direct relation to industrialization. The latter is responsible for the emergence of large public and private bureaucratic organizations in which elements of the new middle class, professional managers and technical experts, slowly but surely assume power.

On the assumption (still strongly denied by orthodox Marxists, but becoming increasingly true in a substantial number of countries, including Brazil) that middle-class groups are becoming politically dominant, one can suppose that Brazil will come to be governed by technobureaucrats and military men of this new middle class. It is characterized by its strong orientation or necessity to promote economic growth, this being the source of its power and prestige. If this were to occur, one could predict that the Brazilian military would begin to leave their colonialist and authoritarian ideas behind, and that the technocrats would begin to develop an economic theory adapted to the real necessities of Brazilian development. In order to become more politically representative, any national development project would have to include other groups in the government, especially the industrial entrepreneurs. Such a government could also reopen the dialogue with the left, as well as restore the unions' autonomy. On the other hand, this government would soon perceive that Brazil's economic development can take place only on nationalist terms and with increasing state intervention. Only in this way can the structural vicious circle of Brazilian underdevelopment be overcome. Since their interests are not organically tied to the liberal capitalist system, the technocrats and military officers of the new middle class will have no difficulty adopting positions favoring state control as they become necessary. Nevertheless, in adopting these measures they are not opting for socialism. What characterizes this new middle-class technocratic and military government is its ideological indefiniteness. Its fundamental interest is in maintaining its own power and security, which are essentially linked to the need for technological and industrial de-

velopment, because technical knowledge (today the strategic factor of production, historically replacing land and capital) is what legitimates technobureaucratic power. If greater state control is necessary to ensure this development, then measures for state control will certainly be adopted.

Initially, I did not indicate this alternative because it is not typically capitalist. Nevertheless, within the existing institutional framework, it seems to be a viable alternative. There is no guarantee that this model will be adopted, nor do I consider it to be an ideal solution. Yet if one were to imagine an alternative for the economic, political, and social development of Brazil that was not strictly socialist, it would probably be the model just described.

An appropriate question here is whether socialism can lead Brazil to development. Here, of course, one can only hypothesize. My personal conviction is that a basically socialist system, with certain qualifications, would be ideal for Brazil. The qualifications are that certain sectors that are not easily dealt with through planning (such as small business, agriculture in general, where family farming tends to be the more efficient solution, and a large part of commerce and industry that demands a constant adaptation to the market) would be reserved for private initiative. All basic industry, a good deal of heavy industry, the banking system, and public services would remain under state control. Both private and state enterprises would function with considerable autonomy. They would be controlled in part by planning, by subsidies, and by economic sanctions, but also in part by market mechanisms, still in effect.

This book, however, is not geared toward creating political and economic theory, much less the author's ideal economic and political system for Brazil. Rather, it intends to make a global analysis of Brazilian society in this critical phase of its history, beginning in 1930 and continuing until the present. And this factual analysis verifies the diagnosis of a crisis, and more importantly, of the structural vicious circle in which Brazilian development is caught. One must therefore conclude that capitalist development is not a very viable solution for Brazil today. Neither the existing economic structure nor its present leadership permits one to predict a long-term future for Brazilian development along capitalist lines.

Nevertheless, for other reasons, starting with the economic and numerical strength of the entrepreneurial and middle class, and also the subordinate situation we occupy in relation to North American imperialism, any kind of socialist solution also faces serious obstacles.

Brazil is thus faced with an impasse. The period of Brazilian history analyzed here is characterized between 1930 and 1961 by development, and later by crisis. This crisis, which at first appeared to be temporary,

has now shown itself to be persistent, profoundly rooted in the economic, social, and political structure of Brazil. Alternative solutions become less and less satisfactory. After the Revolution of 1964, the crisis became worse, and today Brazil is a divided nation, without long-term prospects. Yet though they may be difficult, there are alternatives that can lead Brazil on the path to economic and social development. Eventually a solution will be found that also respects civil liberties. This is why I would like to affirm confidently that in one way or another this crisis will be overcome. I have no crystal ball, nor do I intend to state how the crisis ought to be overcome. I admit that the prospects are not very bright. Nevertheless, I do not feel that pessimism is justified. Brazil is very big and very young. The world is undergoing a profound political, social, economic, and technological transformation. The technological revolution, with its immense potential for reform, and the student revolution, marked by idealism and a sense of personal responsibility, are taking place in Brazil as well as the rest of the world. Thus I am certain that any chance reader who may come upon these pages a few years from now will see that the Brazilian crisis as it is defined here has been overcome. There will be other problems, new challenges to be met. The period of development and crisis from 1930 through 1971 that I have analyzed here will have become part of history.